

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0386-01
Bill No.: HB 880
Subject: Taxation and Revenue - Sales and Use, Health Care
Type: Original
Date: April 12, 2011

Bill Summary: Would provide a state sales and use tax exemption for over-the-counter or nonprescription drugs which are prescribed by a practitioner, for certain medical equipment, supplies, and devices, and for eyeglasses.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks, and Soil and Water	(Unknown)	(Unknown)	(Unknown)
School District Trust	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	(More than \$100,0000)	(More than \$100,0000)	(More than \$100,0000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Elementary and Secondary Education**, the **Department of Health and Senior Services**, and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Conservation (MDC)** assume this proposal would have a negative impact that is unknown but greater than \$100,000 per year on Conservation Commission revenues from a decrease in Conservation Sales Tax collections. MDC officials assume the Department of Revenue would be better to estimate the anticipated fiscal impact that would result from this proposal.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would remove the current exemption on sales of non-prescription drugs to disabled individuals, and would provide an expanded sales tax exemption for:

- * OTC drugs as prescribed by a practitioner,
- * any medical equipment prescribed to a person or that is otherwise paid for by a third-party insurer, and
- * all sales of eyeglasses.

BAP officials stated that this proposal would reduce general and total state revenues by an unknown amount.

Officials from the **Department of Natural Resources** assume this proposal would have an unknown negative fiscal impact on Parks and Soils Sales Tax Funds, Conservation Funds and the General Revenue Fund.

Officials from the **Department of Social Services** assume there would be no fiscal impact to their organization. Prescribed over-the-counter drugs are a MO HealthNet benefit, and pharmacy providers receive payment for the drugs. However, the MO HealthNet program does not pay sales tax.

DOSS officials note that this proposal would delete the words "to individuals with disabilities" in the last clause of current provisions, making the sale of OTC and nonprescription drugs exempt from sales tax for all purchasers, not just the disabled. At the same time, the bill would limit the sales tax exemption to those OTC and nonprescription drugs that are prescribed by a physician.

The proposal would also exempt from sales tax "any medical equipment, supplies, or devices that are provided to a person on or by the order of a physician, or that are otherwise paid for by a third party health insurer, Medicare, or Medicaid, and all sales of eyeglasses."

Officials from the **City of Kansas City** assume this proposal would have a negative fiscal impact on their organization in an indeterminate amount.

ASSUMPTION (continued)

Sales and Use Tax Exemption for OTC Medications

In response to a similar proposal (HB 55 LR 66-01) which would have removed the current exemption on sales of drugs to persons with disabilities and created a new exemption for OTC drugs prescribed by a professional, BAP officials provided statistics from a trade association for OTC drug manufacturers, the Consumer Healthcare Products Association. According to the association, retail sales of OTC drugs (excluding Wal-Mart) are shown in the following table.

2003	\$14.2 billion
2004	\$14.1 billion
2005	\$15.0 billion
2006	\$15.3 billion
2007	\$16.0 billion
2008	\$16.8 billion
2009	\$16.9 billion

BAP officials stated that if 1.7% of these sales were made in Missouri, there would have been \$287.3 million in Missouri sales in 2009. Since BAP officials did not have information suggesting how much of these amounts were by prescription nor the amount of Wal-Mart sales of OTC drugs excluded from the report, they concluded that the proposal would have an unknown impact on General and Total State Revenues.

Sales Tax Exemption for Eyeglasses

In response to a similar proposal in a prior session (HB 110, LR 0432-01, 2009) which would have exempted the sale of eyeglasses from local and state sales taxes, BAP officials provided this estimate of the fiscal impact. According to the US Census Bureau, 2002 Economic Census, retail sales at Missouri optical goods stores totaled \$127 million in 2002. This would include the sale of eyeglasses, contacts, and other goods, but BAP does not have data on proportional sales.

ASSUMPTION (continued)

Therefore, the proposal could reduce general and total state revenues up to the following amounts:

Sales	\$127 million
General Revenue Fund	\$3.8 million
School District Trust Fund	\$1.3 million
Conservation Commission Fund	\$0.2 million
Parks, and Soil and Water Funds	\$0.1 million
Total State Revenues	\$5.4 million
Local Governments	\$3.2 million

Oversight notes that this proposal would eliminate the current exemption for over-the-counter or nonprescription drugs to individuals with disabilities and would provide a new exemption for over-the-counter or nonprescription drugs as prescribed by a practitioner; for any medical equipment, supplies, or devices that are provided to a person on or by the order of a physician; or that are otherwise paid for by a third-party health insurer, Medicare, or Medicaid; and for all sales of eyeglasses.

Oversight was not able to locate any additional information regarding the retail sales that would be affected by the changes in sales tax exemptions if this proposal is enacted, and Oversight assumes the BAP estimates are the best available indicators of potential revenue reductions. Oversight also notes that the underlying data in the BAP estimates includes significant sales categories which would not be exempted from sales tax by this proposal. For fiscal note purposes, Oversight will indicate revenue reductions of more than \$100,000 for the state General Revenue Fund and for local governments, and an unknown revenue reduction for those other state funds which receive sales tax revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>	<u>(More than</u> <u>\$100,000)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

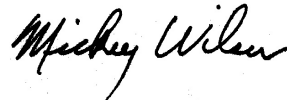
FISCAL DESCRIPTION

The proposed legislation would provide a state sales and use tax exemption for over-the-counter or nonprescription drugs which are prescribed by a practitioner, for certain medical equipment, supplies, and devices, and for eyeglasses.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Natural Resources
Department of Revenue
Department of Social Services
City of Kansas City

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 12, 2011